Capital Requirements Directive

Pillar 3 Disclosures

For the Year Ended 31 October 2021

Date	Version	Activity	Changes By
02.12.21	1	Annual Review and Update	MND
14.01.22	2	Challenge by Audit Committee and Second Line of Defence	Second Line / Audit Committee
20.01.22	3	ALCO review	ALCO
25.01.22	4	Submission to Board and Board Approval	Board

Contents

1. INTRODUCTION

1.1. Purpose

The purpose of this document is to provide members and other stakeholders with background information on the Society's approach to risk management and the maintenance of its capital strength. As such, it includes details of:

- The Society's approach to risk management, its policies and objectives;
- The governance structure of the Board and Board Sub-Committees;
- Own funds information (or capital resources);
- Regulatory capital requirements; and
- Compliance with the European Union ('EU') Capital Requirements Regulation.

1.2. Background

European standards for capital and liquidity requirements for banks, building societies and related institutions are set out in the Capital Requirements Directive IV ('CRD IV, 2013/36/EU') and the Capital Requirements Regulation ('CRR, 575/2013') as well as BIPRU chapter 11. This legislation came into force on 1 January 2014, and is the European implementation of Basel III, which sets out global standards for capital and liquidity adequacy.

On a national level, prudential supervision with regards to capital and liquidity adequacy is overseen by the Prudential Regulation Authority ('PRA'), and CRD IV is implemented in the PRA Rulebook. CRR on the other hand is directly applicable, without implementation in national legislation. CRD IV and CRR are supported by additional guidance and standards defined both on a European and on a national level.

CRR sets out not only capital requirements, but also specifies what the Society must disclose in regard to its risk management policies, procedures, and performance, including the main risks faced by the Society and the governance of those risks. These disclosure requirements are usually referred to as 'Pillar 3', being the third pillar of the three-pillar approach which is normally considered for prudential banking regulation.

- Pillar 1: Minimum capital requirement for credit, market and operational risk. The Society meets the minimum credit requirements by applying the Standardised Approach to credit risk and the Basic Indicator Approach;
- Pillar 2: Assessment of additional capital requirements following review under the Internal Capital Adequacy Assessment Process ('ICAAP'), approved annually by the Board, and the PRA's Supervisory Review and Evaluation Process ('SREP'); and
- Pillar 3: Disclosure requirements.

The total amount of capital the Society is required to hold ('Pillar 1 and Pillar 2A') is collectively referred to as its Total Capital Requirement ('TCR'). The TCR is reviewed annually by the PRA, who set the minimum amount of capital they consider that the Society should hold.

1.3. Basis, Frequency and Scope of Disclosures

The Pillar 3 Disclosure is based upon the Society's audited Annual Report and Accounts for the year ending 31 October 2021, unless otherwise stated. Pillar 3 disclosures are issued on an annual basis and are not subject to external audit, except where they are equivalent to those included within the Annual Report and Accounts.

The Pillar 3 Disclosure is reviewed annually by the Assets and Liabilities Committee ('ALCO') and recommended for Board approval by the Audit Committee. The Board approved the Pillar 3 Disclosure document at their meeting dated 25 January 2022.

The disclosures do not constitute any form of financial statement and must not be relied upon in making any judgement on the Society.

1.4. Scope of Application

The disclosure requirements in this document apply to the Society. The Society has no subsidiaries.

The CRD IV introduced a country-by-country reporting requirement aimed at providing transparency of a financial institution's income and the location of its operations. This is reported on page 75 of the Annual Report and Accounts.

2. RISK MANAGEMENT POLICIES AND OBJECTIVES

2.1 Introduction

The Society is a mutual organisation with no equity shareholders. The principal business objective of the Society is to provide a safe and secure home for Members' savings whilst offering secured lending on residential property in order to support home ownership.

The Society adopts a cautious approach which ensures that it maintains a low exposure to risk, thereby maintaining public confidence and allowing for the achievement of its corporate objectives and long-term success.

Risk management and governance arrangements provide processes for identifying and managing the most significant risks to the Society's objectives. These processes allow the Society to be aware of these risks at an early stage and as far as possible to mitigate them. The ability to properly identify, measure, monitor and report risk is vital in ensuring financial strength, appropriate customer outcomes and the ongoing security of Members' funds.

Risks arise naturally in the course of doing business in the financial services sector. To mitigate these risks to acceptable levels, the Board has put in place a Risk Management Framework ('RMF') which covers all aspects of the Society's operations.

2.2 Risk Management Framework

The Society's Board of Directors has ultimate responsibility for developing and having oversight of an appropriate risk and control framework. The Society has a Board Risk Appetite Statement and RMF that is designed to identify, assess, manage and mitigate risks that may influence the delivery of the Society's strategic objectives and fair outcomes for Members. The Board has delegated powers to the Board Risk Committee to advise on the overall risk appetite, tolerance, and strategy. It also oversees and advises the Board on the current risk exposures and future risk strategy.

The overall RMF continues to be enhanced during the year to ensure that it is further embedded throughout the Society with allocated First Line ownership of the risks held in the Society's Risk Register, a defined reporting structure to support the Board's Risk Appetite statements and associated limits, and ultimately the Society's sustainability and viability over the corporate planning five year horizon.

The RMF includes the use of Board approved Risk Appetite Statements covering the current and future principal risks faced by the Society with emerging risks being identified by First Line in their regular reviews of their risks and controls held in the Risk Register. Risk management information includes the high risk items identified in the Risk Register, the Risk Dashboard which reflects the Board's Risk Appetite Statement and are monitored by ALCO, the Risk Committee and the Board at all their meetings. The Risk Register is an intrinsic part of the ICAAP, which requires an assessment of key risks and a quantification of how much capital must be held to mitigate those risks.

The RMF is reviewed at least annually by the Board Risk Committee and then approved by the Board.

2.2.1 Risk Culture

The Society's risk culture is an important component and driver of our overall corporate culture. The Board has established a risk culture that is guided by strong risk management principles and aligned to our values to support and provide appropriate standards and incentives for professional and responsible behaviour. In this regard, it is the responsibility of the Society Chair and of the Board to ensure that a sound risk culture is embedded throughout the Society and all colleagues feel able to 'speak up'.

The Society's risk culture is expressed through the attitudes and behaviours demonstrated by all colleagues regarding risk awareness, risk taking and risk management. The Board has created an environment for colleagues where integrity, ownership, accountability, customer interests and respect are at the heart of the Society's objectives, values and business practices. Our risk culture underpins how our colleagues approach their work and guides decision making. The Society's values, set out in the Society's Corporate Plan, are an integral part of our risk culture along with our member-focused strategy and core purpose of helping members, communities and colleagues to thrive.

2.2.2 Stress Testing

Stress tests are an integral part of the annual business planning process and annual review of Board risk appetite. Tests are designed to ensure that the Society's capital and liquidity position and risk profile provide sufficient resilience to withstand the impact of severe, but plausible, economic stress on the market ('systemic stress') or Society specific stress events. Stress testing also informs early-warning triggers, management actions and contingency and recovery plans to mitigate or avoid potential stresses and vulnerabilities and as such is integral to the RMF.

The stress-testing framework also includes reverse stress testing techniques which aim to identify circumstances under which the Society's business model could be rendered unviable, leading to a significant change in business strategy. Examples include extreme macroeconomic downturn scenarios and a cyber-attack on the Society. The Risk Committee reviews the Society stress testing (including reverse stress testing) across the ICAAP, Internal Liquidity Adequacy Assessment Process ('ILAAP') and Recovery Plan ('RP') prior to final approval by the Board.

2.2.3 Three Lines of Defence Approach

The Society's RMF is based on a 'Three Lines of Defence' model which is recognised as an industry standard for risk management. This approach ensures that staff are aware of their risk and control related responsibilities and that an effective segregation of duties is in place across the Society. The model is summarised in Table 1:

First Line of Defence: Individual Risk Owners	The Individual Risk Owners own and manage risks as the First Line of Defence. They are responsible for identifying, assessing, controlling and mitigating risks by implementing corrective actions to address process and control deficiencies.
Second Line of Defence: Risk & Compliance Functions	The Society's Risk & Compliance functions are the Second Line of Defence which monitors and reports on risk and compliance to the relevant Committee. This helps to ensure the Society complies with applicable laws and regulations and that policies and procedures are contemporary and operating as intended.
Third Line of Defence: Internal Audit	Internal Audit provide the Third Line of Defence providing the Audit Committee and Board with comprehensive assurance based on a level of independence and objectivity which is not available in the Second Line of Defence.

Table 1: Three Lines of Defence Model

2.3 Board Declaration on the Adequacy of Risk Management Arrangements

The Society maintains a five year Corporate Plan that is approved by the Society's Board and updated on an annual basis and supported by monthly forecasted positions. The Corporate Plan details the projections for capital resources over the next five years. In addition, the Society produces an ICAAP document which demonstrates that the Society has undertaken a detailed risk-based assessment of its current and future assets based on the Corporate Plan projections given the nature and scale of its business. The ICAAP stress testing is reviewed by the Risk Committee and recommended for approval to the Board at least annually. The Board then reviews the ICAAP document. In addition, on-going assessments of current and future capital requirements are undertaken monthly and reported to the Board.

The combination of the Corporate Plan and the ICAAP ensures that the Society's capital resources can be expected to be sufficient to support its corporate objectives.

The Board of Directors can confirm that the Society's current capital position, in its opinion, is sufficient to meet the minimum capital resources requirement and that sufficient capital will continue to meet minimum requirements for its planned future strategy. The adequacy of the Society's capital position is evidenced by its key metrics, which are listed in Table 2. In addition, risk management arrangements adequately assess, control and monitor principal risks facing the Society and are proportionate in light of the characteristics, size, scale and complexity of the Society.

Total Available Capital	31 October 2021 £'000	31 October 2020 £'000
Common Equity Tier 1 ('CET1')	23,656	22,755
Tier 1	23,656	22,755
Total Available Capital	23,746	22,842
Risk Weighted Assets ('RWA')	**£'000**	**£'000**
Total Risk Weighted Assets	91,694	86,807
Risk Based Capital Ratios as a Percentage of RWA	**%**	**%**
Common Equity Tier 1 Ratio	25.80	26.21
Total Capital Ratio	25.90	26.31
Basel III Leverage Ratio	**£'000**	**£'000**
Total Basel III Leverage Ratio Exposure Measure	303,452	272,510
Basel III Leverage Ratio (%)	7.80	8.35
Liquidity Coverage Ratio ('LCR')	**£'000**	**£'000**
Total High Quality Liquid Assets ('HQLA')	72,217	51,446
Total Net Cash Outflows	12,502	12,837
Liquidity Coverage Ratio (%)	577.63	400.75
Net Stable Funding Ratio ('NSFR')	**£'000**	**£'000**
Total Available Stable Funding	279,967	252,326
Total Required Stable Funding	143,639	135,767
Net Stable Funding Ratio (%)	194.91	185.85

Table 2: Key Prudential Metrics as at 31 October 2021 and 2020

2.4 Risk Management Organisation and Governance Structure

2.4.1 The Board

The principal functions of the Board, whilst always acting in the best interests of the Society's Members, are to:

- Provide leadership and direction with the strategic aim of promoting success within an effective and controlled framework;
- Set the Society's strategic aims and objectives;
- Ensure sufficient human and financial resource are available to meet the objectives;
- Satisfy itself on the integrity of financial information at the same time ensuring financial controls and risk management systems are robust, reviewed at least annually; and
- Comply with all legal and regulatory requirements that affect the Society.

The Board meets regularly throughout the year and separately undertakes a formal review of strategy at least annually. Additional Board meetings take place when required.
The Chair is responsible for the leadership of the Board, setting its direction and culture and ensuring effective contributions from all Directors.

As at 31 October 2021, the Board consisted of two Executive Directors and five Non-Executive Directors who provide the appropriate mix of skills and professional expertise required. Prior to 24 June 2021, there were six Non-Executive Directors.

Table 3 refers to all Directorships held by the Board as at 31 October 2021:

Name	Occupation	Other Directorships
Joanne Hindle Chair	Non-Executive Director	Shepherds Friendly Society Bank of London and Middle East La Serenissima
James W Dean Senior Independent Director	Chartered Accountant	Notemega Limited Seale Hill Management Company Limited Rathbone Brothers PLC Rathbone Investment Management Limited School Governor (Reigate Grammar School – limited by guarantee) RJ Young Properties (Stafford) Limited Inigo Limited Inigo Managing Agent Limited
Gary C D Crowe	Management Consultant	University Hospitals of North Midlands NHS Trust The Dudley Group of Hospitals NHS Foundation Trust
David J Grant	Company Director and Consultant	BLAKK Limited The Independent Order of Oddfellows – Manchester Unity Friendly Society Stonebridge Mortgage Solutions Limited
Mary A Kerr	Non-Executive Director	Lawes Property Trust
Michael R Smith	Chief Executive	-
Steven Jones	Deputy Chief Executive and Finance Director	Newcastle and Stafford Colleges Group

Table 3: Board Directorships as at 31 October 2021

The Board has four key Board Committees and reviews the composition of the Committees and the Committee's Terms of Reference annually to ensure they remain relevant and up to date. The Committee's Terms of Reference are available on request from the Society's Secretary and on the Society's website at www.srbs.co.uk.

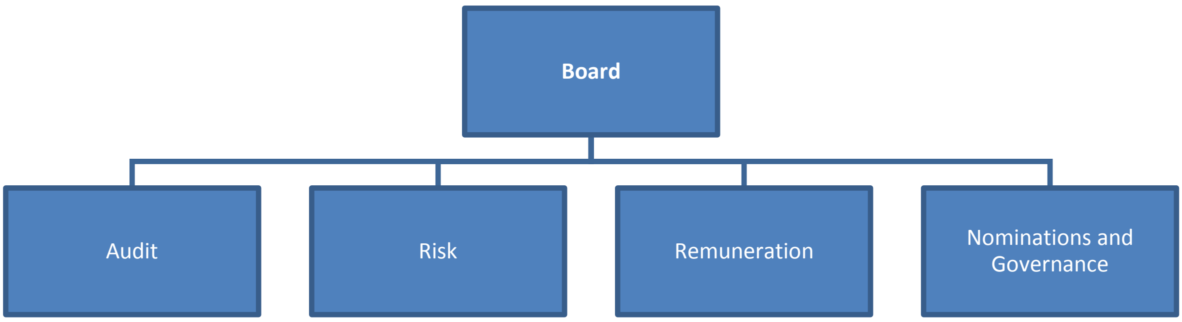

Figure 1: Board and Board Sub-Committee Structure

2.4.2 Audit Committee

The principal functions of the Audit Committee are to:

- Consider all matters of an audit and compliance nature applying to the Society, including internal controls and financial reporting;
- Monitor the performance of Internal and External Audit and recommend their appointment to Board;
- Approve the scope and content of Internal and External Audit work; and

- Advise the Board on whether the Society's Annual Accounts give a fair, balanced and understandable assessment of the Society's financial position and performance, business model and strategy.

The Audit Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: Gary C D Crowe (Chair), Karen E McCormick (resigned 24 June 2021), James W Dean, Mary A Kerr. In addition, the Executive Directors, representatives from the Society's Finance and Risk and Compliance functions, External Audit and the outsourced Internal Audit attend by invitation.

The Audit Committee meets at least four times a year.

2.4.3 Risk Committee

The principal functions of the Risk Committee are to:

- Consider the principal and other risks set out on page 8. The risks are identified and recorded in the Risk Register which is reviewed and monitored to ensure compliance with the Board's risk appetite;
- Ensure the ongoing development and maintenance of the ICAAP, the ILAAP and RP as well as the RMF; and
- Support and challenge the development of the strategic plan and adequacy of stress testing.

Until August 2021, the Risk Committee consisted of all the Non-Executive Directors; David J Grant (Chair), Joanne Hindle, James W Dean, Gary C D Crowe, Mary A Kerr and Karen E McCormick (resigned 24 June 2021) and the Executive Directors; Michael R Smith (Chief Executive) and Steven Jones (Deputy Chief Executive & Finance Director). Due to a change in Committee structure, Mary A Kerr no longer attends the Risk Committee.

The Risk Committee meets at least five times a year.

2.4.4 Nominations and Governance Committee

The principal function of the Nominations and Governance Committee is to lead the process for appointments, ensures plans are in place for orderly succession to the Board and Leadership Team positions, and oversees the development of a diverse plan for succession.

The Nominations and Governance Committee consists entirely of Non-Executive Directors. The following Non-Executive Directors served during the year: Karen E McCormick (resigned 24 June 2021), Joanne Hindle (Chair), and James W Dean (Senior Independent Director). Due to Karen E McCormick resigning the Committee now consists of Joanne Hindle (Chair) and James W Dean with Michael R Smith (Chief Executive) in attendance

The Nominations and Governance Committee meets when there is an appropriate vacancy to fill and at least twice a year to review the skills mix of the Board.

2.4.5 Remuneration Committee

The principal function of the Remuneration Committee is to review and make recommendations to the Board in respect of the remuneration of the Board Chair and Executive Directors, together with the policy for Senior Management and workforce remuneration, to ensure the alignment of incentives and rewards with culture.

The Remuneration Committee consisted of all the Non-Executive Directors, and was chaired by Karen E McCormick. From April 2021 the revised structure of the Remuneration Committee consists of Mary A Kerr (Chair), David J Grant and Gary C D Crowe.

The Remuneration Committee meets at least annually.

2.5 Principal Risks

As building societies operate within a highly competitive financial services market, many of the risks arise simply from operating within such an environment. The Society, like all businesses, faces a number of risks and uncertainties and seeks to actively manage these risks. The identification and management of risk is a high priority and is integral to strategy and operations. The Society has an overall cautious approach to risk, which helps to maintain member confidence particularly in difficult market conditions.

The principal business and financial risks to which the Society is exposed are, strategic / business, credit, concentration, interest rate and basis risk, liquidity, operational, conduct and legal / regulatory. The Society has a formal structure for managing these risks including established risk limits, reporting lines, mandates, and other control procedures.

Table 4 sets out the principal risks to which the Society is exposed:

Principal Risk	Society Approach	Risk Control and Mitigation
Strategic Risk The risks that affect or are created by the Society's business strategy and strategic objectives. Risks arising from changes to the Society's business model and the risk of the Plan proving inappropriate due to macroeconomic, geopolitical, regulatory or other factors.	Embrace change and explore new opportunities to serve our members in pursuit of sustainable asset growth and accumulation of capital reserves in line with our ambitious five-year strategy.	• Business planning process. • Periodic strategic updates to Board. • Ongoing monitoring of Key Performance Indicators and Risk Appetite measures. • Investment in underlying processes, systems and people to support new business developments. • Business planning stress testing. • Robust risk management and corporate governance frameworks.
Credit Risk **Mortgage:** The risk that mortgagors will fail to meet their obligations as they fall due, which results in a potential loss following enforcement of the loan and realisation of the mortgage security and related additional security. **Counterparty:** The risk that market counterparties will fail to meet their obligations as they fall due and subsequently default resulting in a loss.	A prudent lending approach to mortgage customers and treasury counterparties to minimise default rates and impact on earnings or capital whilst generating an appropriate level of return reflecting the risk.	• Board approved risk appetite and risk limits. • Board approved Responsible Lending Policy. • Board approved Treasury and Treasury Counterparty Policies. • Robust underwriting criteria. • Mortgage loans are manually underwritten. • Counterparty and exposure limits and ALCO reviews. • Stress testing. • Credit Committee oversight for mortgage lending risk and financial soundness risk (including market risk). • Capital planning as part of the Society's ICAAP.
Financial Soundness Risk The risk that insufficient funds are available to meet financial obligations as they fall due and/ or, insufficient capital resources, resulting in the inability to support business activities, as well as the inability to meet liquidity and capital regulatory requirements.	**Liquidity** Maintain liquid resources above Board-approved treasury financial minimums to give members confidence on the Society's ability to meet its obligations. **Capital** Utilise capital effectively to support current and future business initiatives, including stressed losses	• Board approved risk appetite and risk limits. • Maintaining appropriate levels of High Quality Liquid Assets. • Liquidity is monitored daily by the Leadership Team. • Board approved Treasury and Treasury Counterparty Policies. • Liquidity planning as part of the Society's ILAAP

	that arise as a result of plausible but extreme scenarios and to meet regulatory requirements.	• Capital planning as part of the Society's ICAAP • Stress testing. • ALCO oversight. • Board approved Recovery Plan.
Market Risk The risk of losses arising from changes in market rates or prices.	The Society does not have any fixed rate savings or mortgage products, only variable, and therefore the interest rate risk for the Society is significantly less than for other similar institutions.	• Board approved risk appetite and risk limits. • Specialist external treasury advisers used for investing surplus funds. • Stress testing. • ALCO oversight.
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The scope of operational risks includes legal and regulatory, financial crime (including fraud), business continuity, information technology (including cyber-risk), people and resources, process and conduct. Execution of information technology change is a key driver of Operational Resilience risk and can impact on systems availability and the ability to deliver services to customers to the level desired.	The principal operational risks facing the Society are change management, fraud, information technology and cyber and operational resilience, management of third party suppliers, provision of inappropriate advice to consumers, non-compliance with regulation, key person risk and business interruption.	• Board approved risk appetite and risk limits. • Strong and effective internal control environment. • Insurances. • Operational Management Committee ('OMC') oversight. • Continued investment in developing risk management frameworks, policies, systems and processes. • Continuous improvement, learning from internal and external events and responding to findings from Second Line and Third Line reviews. • Investment in our operational resilience including cyber-crime and IT.
Conduct Risk The risk of financial or reputational loss as a result of treating customers unfairly and delivering inappropriate outcomes that lead to customer detriment.	We aim to deliver positive outcomes for customers, maintaining a high degree of customer and public confidence by focusing on the Society's aims and values.	• Board approved risk appetite and risk limits. • Board approved Conduct Risk Policy. • Members are placed at the heart of our decision-making, aligned to our Society values. • OMC oversight. • Strong risk management culture. • Vulnerable Customer Standard.
Legal and Regulatory Risk The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK or EU legal and regulatory requirements.	Maintain robust controls to ensure compliance with the intent and spirit of relevant laws and regulation.	• Board approved risk appetite and risk limits. • Regulatory horizon scanning. • Strong compliance culture. • Regulations and Compliance Management Committee ('RCMC') oversight. • Compliance Monitoring Plan. • Open and transparent relationship with all regulatory bodies.

Table 4: Principal Risks

Other material risks consist of matters of material significance to the Society which are either temporary or not yet sufficiently developed to incorporate into the Principal Risk framework.

Non-Principal Risk	Society Approach	Risk Control and Mitigation
COVID-19 Coronavirus represents a generational disruption to life in the UK, with the true and lasting impact to the UK and global economy not yet known.	The Society has responded effectively to the challenges of COVID-19, ensuring our members and colleagues are safe and supported throughout. We continue to monitor and assess the longer-term impacts the pandemic may bring.	• The Society continued to respond constructively to the pandemic over the past 12 months, capitalising on the successes of our early response to support future growth. For example, steps taken to enable remote working have improved our operational resilience and allowed us to introduce an agile working approach to the benefit of current and future colleagues. • Looking forward, from a macroeconomic perspective, the true impact of the pandemic remains unclear, particularly the impact from the unwinding of the government support schemes, for example the cessation of the Furlough Scheme in September 2021. • The Society will continue to assess its arrears management strategies to ensure they are fit for purpose in the event of an increase in payment difficulties for our members.
Climate Change The Bank of England ('BoE'), Financial Conduct Authority ('FCA') and PRA are continuing to review and update regulatory expectations related to climate change. The Society recognises two primary elements of climate change risk: **Physical Risk** The risk of the Society being impacted by climate and weather related events, such as heatwaves, droughts, floods, storms and sea level rise. These events can potentially result in large financial losses, impairing asset values and the creditworthiness of borrowers and; **Transition Risk** Risks arising from the process of adjustment towards a low-carbon economy. Changes in policy, technology and sentiment could prompt a reassessment of the value of a large range of assets and create credit exposures for banks and other lenders as costs and opportunities become apparent.	Ensure the Society develops processes, controls and reporting metrics to assess and manage climate change risk. The climate change elements manifest as increasing credit, market and operational risk for the Society which require effective mitigation and management.	• The Society continues to track the requirements of the PRA's SS3/19 the recommendations made by the Task Force on Climate Related Financial Disclosures ('TCFD') as well as increasing expectations on Environmental, Social and Corporate Governance arising from various sources. • This entails assessing the impacts and potential mitigations for credit, market and operational risks which may transpire.

Table 5: Other Material Risks

3. CAPITAL RESOURCES

As at 31 October 2021 the Society complied with its capital requirements as defined by the PRA. The total capital resources of the Society calculated under Pillar 1 CRD IV were £23.75m comprising Tier 1 capital of £23.66m and Tier 2 capital of £0.09m. Full details are provided in Table 6.

Capital Resources	31 October 2021 £'000	31 October 2020 £'000
Tier 1 Capital		
General Reserves	23,684	22,742
Available-For-Sale Reserve	(28)	13
Total Tier 1 Capital (CET1)	**23,656**	**22,755**
Tier 2 Capital		
Collective Impairment Provision	90	87
Total Tier 2 Capital	**90**	**87**
Total Capital Resources	**23,746**	**22,842**
Risk Weighted Assets	**91,694**	**86,807**
Capital Ratios and Buffers	**%**	**%**
Capital Ratios:		
CET1 Ratio – regulatory minimum 4.5%	25.80	26.21
Total Capital Ratio – regulatory minimum 8%	25.90	26.31
Capital Buffers:		
CET1 Ratio requirement	4.50	4.50
Capital Conservation Buffer requirement	2.50	2.50
Countercyclical Buffer requirement	0.00	0.00
Total CET1 Capital and Buffer Requirements	**7.00**	**7.00**

Table 6: Capital Resources and Capital Ratios as at 31 October 2021 and 2020

Reconciliation of Accounting and Regulatory Capital Resources	31 October 2021 £'000	31 October 2020 £'000
Accounting Capital Resources – General Reserves	23,656	22,755
Adjusted for:		
Collective Provisions	90	87
Regulatory Capital Resources	**23,746**	**22,842**

Table 7: Reconciliation of Accounting and Regulatory Capital Resources as at 31 October 2021 and 2020

Tier 1 Capital:
These are the cumulative general reserves of the Society, externally verified, and represent an accumulation of post-tax profits and the available-for-sale reserve.

Tier 2 Capital:
This is the collective impairment provision of the Society which represents expected losses arising from the Society's portfolio of secured advances. Individual impairment provisions (currently £108k) are not allowable as Tier 2 capital.

The Society does not hold any alternative Tier 1 instruments nor have any Tier 3 capital resources.

4. CAPITAL ADEQUACY

4.1 Capital Management

On an annual basis, the Society updates its five-year Corporate Plan, incorporating forecast strategic business growth and capital positions and requirements. This planning cycle is driven by current market and economic conditions and is underpinned by the Society's risk appetite.

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain future development of the business. The formal ICAAP assists the Society with its management of capital. The Board monitors the Society's capital position regularly to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed against the stated risk appetite that aims to maintain capital at a level that equates to or exceeds its minimum capital requirement. In order to produce a detailed capital plan, the ICAAP contains calculations of the capital resources requirement (effectively, the minimum capital requirement) each year using the Standardised Approach for credit risk and the Basic Indicator Approach for operational risk.

4.2 Capital Requirements

Under the Standardised approach for credit risk, the Society applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum total capital requirement for credit risk, as detailed in Table 8. For operational risk the risk weighted average value is calculated by applying 15% to the Society's average net income over the previous three years:

Standardised Exposure Class	Exposure £000	Risk Weighted Assets £'000	2021 Capital Required £'000
Liquidity Exposures			
Cash	90	-	-
Central Government and Bank of England	72,135	-	-
Institutions	24,243	9,763	781
Total Liquidity Exposures	**96,468**	**9,763**	**781**
Loans and Advances to Customers:			
Residential – non-arrears	201,424	70,464	5,637
Residential – past due	258	258	21
Non-residential – non-arrears	452	452	36
Forward Commitments – Off Balance Sheet	3,855	1,349	108
Total Loans and Advances to Customers	**205,989**	**72,523**	**5,802**
Other Exposures:			
Fixed and Other Assets	995	995	80
Total Other Exposures	**995**	**995**	**80**
Credit Risk – Pillar 1 Capital Requirement	**303,452**	**83,281**	**6,663**
Operational Risk - Capital Requirement	-	8,413	673
Total Pillar 1 Capital Requirement	**-**	**91,694**	**7,336**
Total Capital Resources as per Table 6	-	-	23,746
Excess of Capital over Total Pillar 1 Capital Requirement	**-**	**-**	**16,410**

Table 8: Pillar 1 Capital Resource Requirements as at 31 October 2021

As the Society currently has £16.410m of total capital in excess of minimum capital requirements this is regarded as being more than sufficient to meet any future capital buffer requirements. The Society's five year

Plan forecasts that the Society's capital position will strengthen over this time period and that Basel III capital requirements will continue to be met with a robust margin.

The difference between the Society's total credit risk exposure per Table 8 of £303.452m and the total assets recognised in the Statement of Financial Position of £299.399m in the Annual Report and Accounts for the year ended 31 October 2021 is detailed in Table 9:

Reconciliation of Total Credit Risk Exposure and Society's Statement of Financial Position	£'000
Total Credit Risk Exposure	303,452
Less: Individual and Collective Impairment Provisions	(198)
Less: Forward Commitments	(3,855)
Total Assets Recognised in the Statement of Financial Position	**299,399**

Table 9: Total Credit Risk Exposure and Total Asset Reconciliation as at 31 October 2021

4.3 Capital Buffers

The Society is required under the CRR to hold additional capital for the capital buffers set out in Table 10:

Capital Conservation Buffer	The Capital Conservation Buffer is intended to ensure that firms build up buffers of capital outside any periods of stress and is designed to avoid breaches of minimum capital requirements. This capital buffer can then be drawn upon in times when losses are incurred. The buffer requirement as at 31 October 2021 was 2.50% of RWA.
Countercyclical Buffer	The Countercyclical Capital Buffer also aims to ensure firms avoid breaching minimum capital requirements and varies depending on jurisdiction. The Countercyclical Capital Buffer requirement as at 31 October 2021 was 0.00% following the reduction from 1.00% on 9 March 2020 by the Bank of England's Financial Policy Committee ('FPC') in light of the challenging period faced by financial institutions resulting from COVID-19. The FPC agreed, at its November 2021 meeting, to increase the rate to 1.00% with binding effect from 13 December 2022.

Table 10: CRD IV Buffers

Table 11 details the capital requirement for both buffers:

Capital Buffers	RWA £'000	Capital £'000
Capital Conservation Buffer	91,694	2,292
Countercyclical Buffer		-
Total Buffer Requirement		**2,292**

Table 11: CRD IV Buffer Requirement

5. CREDIT RISK – LOANS AND ADVANCES

For a building society, mortgage credit risk is most likely to arise through the inability of borrowers to repay their mortgage commitments. The Society has no appetite for material credit losses. This is controlled through credit quality standards and strict underwriting rules. The Society operates throughout England and Wales. It has no exposure to properties internationally.

All mortgage loan applications are assessed with reference to the Society's risk appetite and Board approved Lending Policy. The Board's risk appetite is based on:

- The maximum proportion of the total mortgage portfolio that certain loans types can represent;
- Loan-to-value ('LTV') ratios; and
- The arrears level.

LTV and arrears levels are key drivers of the Pillar 1 credit risk capital calculation. All mortgage products are priced to ensure that the margin appropriately reflects the credit risk involved and the carrying cost of the incremental risk capital.

The lending portfolio is monitored by both the Product Development and Credit Committees to ensure that it remains in line with the stated risk appetite of the Society. All mortgage applications are manually underwritten on a case-by-case basis using experienced staff ensuring that they meet the Lending Policy rules through a full affordability assessment so supporting the risk appetite of the Society. The Society's Second Line Risk and Compliance function undertakes periodic reviews of the Society's lending process and the results of the reviews are reported to the Audit Committee.

5.1 Maturity, Loan to Value and Geographical Analysis

The maturity of loans and advances to customers from the date of the balance sheet is shown in Table 12. The table was compiled on the assumption that all loans are held to their contractual maturity date.

Maturity of Loans and Advances to Customers	2021 £'000	%
On call and at short notice (one month or less)	191	0.1
In not more than three months	71	-
In more than three months but not more than one year	377	0.2
In more than one year but not more than five years	10,503	5.2
In more than five years	190,992	94.5
Total Gross Mortgages	**202,134**	**100.0**

Table 12: Maturity Loans and Advances to Customers as at 31 October 2021

An analysis of the Society's indexed LTV profile is shown in Table 13:

Loan to Value Profile	2021 £'000	%
Less than 50%	124,834	61.8
50 – 70%	63,547	31.4
70 – 90%	13,753	6.8
Total Gross Mortgages	**202,134**	**100.0**

Table 13: Loan to Value Profile as at 31 October 2021

During the year to 31 October 2021, the Society experienced £nil losses on mortgages (2020: £nil).

An individual impairment provision of £108k on fully secured residential property ('FSRP') was held at 31 October 2021 covering four residential properties as well as a collective impairment provision of £90k. For capital purposes, the collective impairment provision is regarded as Tier 2 capital.

The Society's current Board approved Lending Policy has produced an inherently low risk mortgage book. The Society has strong management controls over arrears with no losses arising from default leading to possession in the year to 31 October 2021. The average loan to value of the residential mortgage book was 31.3% as at 31 October 2021.

An analysis of the Society's 'past due' loans by geographical area, which are loans more than 90 days in arrears, as at 31 October 2021 is set out in Table 14:

Region	Residential		Non-Residential		
	Performing £'000	Past Due £'000	Performing £'000	Past Due £'000	Total £'000
Staffordshire	53,883	226	452	-	54,561
Rest of UK	147,541	32	-	-	147,573
Total Gross Mortgages	**201,424**	**258**	**452**	**-**	**202,134**

Table 14: Past Dues by Geographical Area as at 31 October 2021

5.2 Reconciliation of Loans and Advances to Customers

Table 15 provides a reconciliation of the above table to 'Loans and Advances to Customers' in the Annual Report and Accounts 2021:

Reconciliation of Loans and Advances to Customers	2021 £'000
Loans and Advances to Customers per Annual Report and Accounts	202,093
Add: Individual and Collective Impairment Provisions	198
Less: EIR Prepayment included in Other Assets	(157)
Society Accounting Value of Loans and Advances to Customers	**202,134**
Total Residential Exposures for Capital Adequacy Purposes (as per Table 14)	201,682
Total Non-Residential Exposures for Capital Adequacy Purposes (as per Table 14)	452
Society Capital Adequacy Value of Loans and Advances to Customers	**202,134**
Adjustments to reflect different reporting requirements and timing differences	-
Reconciled Value of Loans and Advances to Customers	**202,134**

Table 15: Reconciliation of Loans and Advances to Customers as at 31 October 2021

5.3 Individual and Collective Impairment Provisions

The Society's accounting policy in relation to the impairment provisions for loans and advances is stated in full in Note 1, Accounting Policies, to the Annual Report and Accounts 2021.

Movements in the Society's impairment provisions during the year-ended 31 October 2021 are set out in Table 16.

Impairment Provisions	Loans FSRP		Loans FSOL		
	Individual £'000	Collective £'000	Individual £'000	Collective £'000	Total £'000
Balance at 1 November 2020	128	87	-	-	215
Charge/(credit) for the year	(20)	3	-	-	(17)
Balance at 31 October 2021	**108**	**90**	**-**	**-**	**198**

Table 16: Impairment Provisions as at 31 October 2021

For capital adequacy purposes, collective impairment provisions are regarded as Tier 2 capital as detailed in Table 6.

No individual impairment provisions have been utilised to adjust downwards the value of risk weighted assets in the capital adequacy calculations as detailed in Table 8.

Provisions on residential and commercial mortgages are made to reduce the value of loans and advances to the amount that is considered likely to be ultimately recoverable in the event of the relevant property held as security being sold in possession by the Society.

The Society considers evidence of impairment for loans and advances at both an individual asset and a collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Where certain emerging impairment characteristics are considered significant but not assessed as part of the impairment calculation, the Board may elect to apply an overlay to the impairment provision. The amount of impairment loss is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised using provisions.

In determining whether an impairment loss should be recorded, the Society is required to exercise a degree of judgement. Impairments are calculated as the difference between expected future cash flows and the current outstanding balance, using management's best estimate of propensity to default using all available data. Estimates and assumptions are around the probability of any account defaulting, the time taken to complete the sale of properties in possession and the eventual loss incurred in the event of forced sale discount, including realisation costs. They are updated as the Board considers appropriate to reflect both current and future circumstances. In exercising its judgement, the Board consider a number of scenarios, incorporating a range of the key variables noted. The scenarios include, for example geographical concentration and type of lending / market segment.

6. CREDIT RISK – LIQUIDITY

For a building society, liquidity credit risk is most likely to arise through the failure of a treasury counterparty or country ('wholesale credit risk'). The Society has no appetite for material credit losses. This is controlled through credit quality standards as well as limits by exposure to counterparty, sector, country and instrument.

The counterparty limits are defined in the Board approved Treasury Counterparty Policy which uses Fitch ratings agency as its External Credit Assessment Institution ('ECAI'). Exposure limits for individual banks on the Society's list of authorised counterparties are set taking into account Fitch's Short and Long-Term Ratings. No counterparty is included on the list unless it satisfies, as a minimum, a Short–Term rating of F1 and a Long-Term rating of A-. In addition to the use of Fitch ratings, market intelligence is used in assessing counterparty risk, in recognition that there may be a delay between a counterparty being in difficulty and this being reflected in a downgrading of its Fitch rating. Limits are also set for diversification in terms of issuance and sector.

Exposure to counterparty credit risk is derived from the investment in banks and building societies the Society makes for liquidity purposes. Treasury exposures are assigned risk weightings determined by both residual maturity and Credit Quality Step ('CQS'). Fitch's credit ratings are mapped to each CQS to determine the risk weighting applied to each exposure. The mapping is set out in Table 17.

<table>
<tr><th rowspan="2">CQS</th><th rowspan="2">Ratings</th><th rowspan="2">Central Bank and Governments Risk Weighting ('RW')</th><th colspan="2">< = 3 Months Residual Maturity</th><th colspan="2">> 3 Months Residual Maturity</th></tr>
<tr><th>Rated Credit Institutions RW</th><th>Unrated Credit Institutions RW</th><th>Rated Credit Institutions RW</th><th>Unrated Credit Institutions RW</th></tr>
<tr><td>1</td><td>AAA to AA-</td><td>0%</td><td>20%</td><td rowspan="2">20%</td><td>20%</td><td rowspan="2">20%</td></tr>
<tr><td>2</td><td>A+ to A-</td><td>20%</td><td>20%</td><td>50%</td></tr>
</table>

Table 17: Liquidity Risk Weightings Defined in the CRR

6.1 Wholesale Credit Risk

The purpose of the Society's ILAAP is to ensure that the Society has sufficient liquidity to meet its obligation as they fall due. The Society's Board approved Treasury Policy is to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties.

In accordance with its Treasury Counterparty Policy, the Society only invests funds in British Government Securities, banking institutions and building societies that satisfy the Board's Fitch quality rating. Once a counterparty attains a rating of A-, with a negative outlook, management action is taken to reduce the exposure in that counterparty. The assets are managed with advice from external treasury brokers.

New limits and counterparties are considered by ALCO before presenting recommendations to the Risk Committee for challenge and the Board for approval. The credit risk appetite for liquid assets is defined by: the minimum counterparty credit rating; the permissible instruments; the maximum percentage of total liquid assets held at each credit risk level; and the investment term. ALCO monitors exposures to counterparties and countries and ensures the Society is operating within its Board approved limits at its monthly meetings. The Board regularly reviews the Society's exposure by sector.

The maturity and credit profiles of Treasury assets as at 31 October 2021 are shown in Table 18:

Fitch Ratings	**Maturity of Treasury Investment**			
	< 3 months £'000	**3 months to 1 year £'000**	**>1 year £'000**	**Total £'000**
Banks: A+ to A-	7,862	13,754	-	21,616
Building Societies	90	2,627	-	2,717
Bank of England	72,135	-	-	72,135
Total	**80,087**	**16,381**	**-**	**96,468**

Table 18: Maturity of Treasury Investments as at 31 October 2021

Nil provisions for loss relating to counterparty risk are held by the Society as at 31 October 2021 (2020: £nil).

7. OPERATIONAL RISK

The Society has adopted the Basic Indicator Approach ('BIA') for operational risk. Under the BIA, a Pillar 1 Operational Risk Capital Requirement ('ORCR') is calculated at 15% of the three year average of the Society's net interest income and its net non-interest income:

The ORCR as at 31 October 2021 is set out in Table 19:

Financial Year End 31 October 2021	Average £'000	2021 £'000	2020 £'000	2019 £'000
Net Interest Income	4,480	4,554	4,432	4,454
Net Non-Interest Income	7	6	(3)	18
Relevant Indicator	4,487	4,560	4,429	4,472
ORCR (15%)	673			
RWA Equivalent	8,413			

Table 19: Pillar 1 Operational Risk Requirement as at 31 October 2021

8. MARKET RISK AND INTEREST RATE RISK IN THE BANKING BOOK ('IRRBB')

8.1 Interest Rate Risk in the Banking Book ('IRRBB')

Market risk is the risk that the value of, or income arising from, the Society's assets and liabilities changes as a result of changes in market prices, the principal element being interest rate risk.

The Society only transacts with products in sterling so is not directly affected by currency risk.

Repricing risk is monitored using assessments such as gap analysis and economic value movements. The results of these assessments are reviewed against agreed limits which are set out in the Board approved Interest Rate and Structural Risk Policy. Exposures against these limits are monitored on a monthly basis and reported to ALCO.

IRRBB is the impact on economic value due to movements in interest rates and arises from mismatches of the re-pricing or maturity of assets and liabilities as interest rates change. The Society has a relatively simple treasury structure, with all mortgage and savings products on administered rates in line with its Prudential Sourcebook limits, while liquidity is typically of short duration (held within a twelve month duration).

The Society's main exposure to interest rates arises from its investment in fixed interest yielding instruments, for example, Government Gilts and Certificates of Deposit with other financial institutions.

The Society uses specialist external treasury advisers for investing surplus funds and has a good spread of maturity of its invested monies to manage this risk effectively.

The economic value stress test measures the effect of a parallel shift in interest rates of up to 2%. The Board has set a limit on the effect that a 2% parallel shift in interest rates can have on the Society's capital. Capital is provided accordingly under Pillar 2 within the ICAAP.

Table 20 shows the sensitivity to this measurement (in terms of economic value):

£'000	31 October 2021		31 October 2020	
	+2%	-2%	+2%	-2%
Economic Value	238	246	135	139

Table 20: Change in Economic Value as at 31 October 2021 and 2020

The Society also runs, on a monthly basis, the six interest rate shock scenarios set out by the European Banking Authority ('EBA') in its publication 'Guidelines on the Management of Interest Rate Risk arising from Non-Trading Activities – Annex III'. This is reported to ALCO. The positions as at 31 October 2021 and 2020 are set out in Table 21.

EBA Interest Rate Shocks	31 October 2021 £'000	31 October 2020 £'000
Parallel up	296	168
Parallel down	310	176
Steepener	354	201
Flattener	373	212
Short Rate up	354	201
Short Rate down	373	212
Maximum over the Financial Year	**373**	**294**
Limit EBS/GL/2018/02	3,548	3,413
Tier 1 Capital	23,656	22,755
Internal Limit (2.5% Reserves)	594	571
Reserves	23,746	22,842

Table 21: EBA Interest Rate Shocks as at 31 October 2021 and 2020

In line with EBA/GL/2018/02 'Guidelines on the management of interest rate risk arising from non-trading book activities' paragraph 114, the EBA Shocks must not exceed 15% of Tier 1 Capital (£3,548k), and under paragraph 113 the 200bps shock must not exceed 20% of Reserves (£4,749k); the Society was able to satisfy both limits with sensitivities as at 31 October 2021 of £373k and £259k (September 2021) respectively. Furthermore, the Society's 200bps shock is measured against its internal risk appetite of 2.5% of reserves which at 31 October 2021 was £594k, with the corresponding sensitivity of £259k satisfying the limit.

8.2 Basis Risk

Basis risk results from imperfect hedging across each interest rate basis. The Society's banking book basis consists of administered, fixed, Bank Base Rate and non-interest bearing assets or liabilities.

Basis risk is managed through the setting of limits upon the maximum negative impact that the movement between interest bases will have. It is modelled by analysing the historical spread between each rate basis, where market rates are available, such as Bank Base Rate. Where such information is not available, like with administered and fixed, it is instead driven by internal assumptions.

The Basis Risk appetite limit is the sum of the positive net absolute interest bearing assets and interest bearing liabilities expressed as a percentage of total assets subject to a maximum of 70%.

Basis risk is also mitigated by employing limits on both the overall basis risk mismatch and the exposure to each type of basis risk. The position is reported to ALCO monthly for review with the respective limits reviewed annually as part of the Board approved Structural Risk Policy.

The Society's exposure to each interest rate basis is as follows:

- • Bank of England Base Rate: Bank of England facilities in the form of the reserve account;
- • Fixed rates: fixed rate treasury investments;
- • Administered: mortgages and savings whereby the Society is able to change the interest rate receivable / payable on its products; and
- • Other: Non-interest bearing assets such as bank and cash.

9. ASSET ENCUMBRANCE

Under the Basel Framework encumbered assets are defined as assets that the Society is restricted or prevented from liquidating, selling, transferring or assigning, due to regulatory, contractual or other limitations.

Article 100 of the CRR requires institutions to report to the competent authorities the level of all forms of asset encumbrance.

The Society has not pledged any part of its loan book as collateral with the Bank of England and the Society does not use derivatives that supports the management of interest rate risk.

As a result, the Society does not possess any encumbered assets.

10. LEVERAGE RATIO

The leverage ratio has two objectives: first to limit the risk of excessive leverage by constraining the building up of leverage in the banking sector during economic upswings and second to act as a simple instrument that offers a safeguard against the risks associated with the risk models underpinning risk weighted assets. The ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as a percentage.

The Capital Measure for the leverage ratio is Tier 1 capital as defined in Section 3. The Exposure Measure consists of both on and off balance sheet exposures, with the latter being introduced in January 2014 when the Basel Committee on Banking Supervision published a revised methodology for calculating the leverage ratio. The revised paper requires off-balance sheet items to be converted into credit exposure equivalents by using credit conversion factors.

Tables 22 to 24 detail the Society's leverage ratio of 7.80% as at 31 October 2021 (2020: 8.35%):

LRSum: Reconciliation of Leverage Ratio Exposures to the Financial Statements	**2021 £'000**	**2020 £'000**
Total Assets as per the Financial Statements	299,399	269,312
Adjustments for Off Balance Sheet Items: Forward commitments	3,855	2,983
Adjustment for Impairment Provisions	198	215
Leverage Ratio Exposure	**303,452**	**272,510**

Table 22: Leverage Ratio as at 31 October 2021: Reconciliation of Leverage Ratio Exposures to the Financial Statements: LRSum

LRSpl: Analysis of On-Balance Sheet Exposures (excluding derivatives and SFT)	**2021 £'000**	**2020 £'000**
Secured by Mortgages on Immovable Property	202,134	197,728
Sovereign	72,135	51,398
Institutions	24,333	19,330
Other Exposures (e.g. equity, securitisations, and other non-credit obligations assets)	995	1,071
Total On-Balance Sheet Exposures	**299,597**	**269,527**

Table 23: Leverage Ratio as at 31 October 2021: Analysis of On-Balance Sheet Exposures: LRSpl

LRComm: Leverage Ratio Common Disclosure	**2021 £'000**	**2020 £'000**
On-Balance Sheet Items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	299,597	269,527
Assets Amounts deducted in determining Tier 1 Capital	(198)	(215)
Total On-Balance Sheet Exposures (excluding derivatives, SFTs and fiduciary assets)	**299,399**	**269,312**
Total Off-Balance Sheet Exposures	**3,855**	**2,983**
Tier 1 Capital	23,656	22,755
Total Exposures	303,452	272,510
Leverage Ratio (%)	**7.80%**	**8.35%**

Table 24: Leverage Ratio as at 31 October 2021: Common Disclosure: LRComm

11. LIQUIDITY AND FUNDING RISK

The Society manages liquidity risk by holding an appropriate amount and composition of liquid assets in terms of high quality liquid assets and other marketable assets, to:

- Meet obligations as they fall due (sufficient to meet adverse cash flows under stressed conditions);
- Smooth out the effect of maturity mismatches; and
- Maintain public confidence in a stressed environment.

The Society's liquidity is sourced solely from retail funding. Table 25 summarises the liquid asset levels in relation to the underlying funding, which is a primary metric used by the Society to assess liquidity risks.

Liquid Asset Level	31 October 2021 £'000	31 October 2020 £'000
Total Liquid Assets	96,468	70,728
Total Funding	274,981	245,907
Liquid Asset (%)	35.08	28.76

Table 25: Liquidity as a Percentage of Shares, Deposits and Liabilities as at 31 October 2021 and 2020

Monitoring of the Liquidity and Funding Policy is performed regularly as set out in the Board approved risk appetite and policy statements. Compliance with this policy is reported on a monthly basis to ALCO.

The Society manages funding risk by maintaining a diverse funding base and ensures compliance with applicable regulatory requirements. This in turn determines the overall level of liquidity to be maintained. The Society's ILAAP is reviewed annually and approved by the Board. The ILAAP forms a central part of the Society's risk management and includes stress testing which analyses a range of severe yet plausible scenarios to confirm that the Society holds an adequate amount of available liquidity.

The Society has also documented, within its Recovery Plan, metrics that would indicate an emerging market-wide or Society specific stress event. The Plan includes a range of options available to the Society in the event of such a stress, such as contingency funding plans, to ensure an adequate level of liquidity is maintained.

The liquidity coverage ratio was introduced as part of the CRD IV framework with its aim to improve short-term resilience of the liquidity risk profile of firms by requiring a buffer of high quality liquid assets to be held. The measure is designed to ensure that all credit institutions have sufficient available high quality liquid assets to meet a stressed net cash outflow over a thirty day horizon. The measure must be greater than the 100% threshold as defined in the CRR. The liquidity coverage ratio is monitored on a monthly basis against the Board's risk appetite. Table 26 details the Society's quarterly liquidity coverage ratio for the twelve month period to 31 October 2021:

Liquidity Coverage Ratio	31 January 2021 £'000	30 April 2021 £'000	31 July 2021 £'000	31 October 2021 £'000
Liquidity buffer	75,101	71,786	69,071	72,217
Total Net Cash Outflows	11,283	10,582	15,580	12,502
LCR %	**665.60%**	**678.35%**	**443.34%**	**577.63%**

Table 26: Liquidity Coverage Ratio as at 31 October 2021

The average liquidity coverage ratio for the financial year ending 31 October 2021 was 483.04% (2020: 368.75%).

The Society also calculates the Net Stable Funding Ratio on a monthly basis using the latest available guidance, which was 194.91% for the year (2020: 185.85%) above the minimum regulatory requirement of 100%.

The average net stable funding ratio for the financial year ending 31 October 2021 was 196.30% (2020: 185.62%).

12. REMUNERATION AND MATERIAL RISK TAKERS

The Society complies with the principles in the UK Corporate Governance Code 2018 ('the Code') relating to remuneration as far as they are applicable to a mutual organisation of the Society's size. The Society has adopted a Remuneration Policy which describes how the Society has complied with the requirements of both the supervisory statements issued by the PRA and the FCA relating to remuneration and the Code. Full details of the Society's Remuneration Policy and details of Executive Directors' emoluments for 2021 and comparatives for 2020 are set out in the Directors' Remuneration Report to the Annual Report and Accounts, available on the Society's website, which should be read in conjunction with this report.

The Society's objective in setting remuneration policies is to ensure that they are in line with its business strategy, risk appetite and long-term objectives, and that remuneration is set at a level that retains and attracts staff of the appropriate calibre.

Remuneration of Executive Directors is recommended to the Board by the Remuneration Committee. , which consists of three Non-Executive Directors. In reviewing and recommending remuneration, the Committee takes account of fees, salaries and other benefits provided to Directors of comparable institutions. Non-Executive Directors are paid fixed fees only.

A bonus is paid to the Executive Directors. The bonus is recommended to Board by the Remuneration Committee and is based on a range of financial and non-financial corporate performance objectives including appropriate risk management objectives. Bonus payments are payable annually and set at a maximum of 20% for both the Chief Executive and the Deputy Chief Executive and Finance Director.

No Executive Director holds a contract with a notice period of more than twelve months.

12.1 Remuneration Code Staff

Remuneration Code staff are defined by the FCA as 'staff that have a material impact on the firm's risk profile; this includes staff that perform significant influence functions, senior managers and risk takers'. The Board has determined that Non-Executive Directors, Executive Directors, other key management and staff whose duties require them to have a relevant qualification fall within the definition of Remuneration Code staff under SYSC 19D of the PRA Handbook. These staff are now identified as 'Material Risk Takers' under CRD IV.

Information concerning the mandate of the Remuneration Committee and the decision-making process it uses in determining remuneration policy is contained within the Terms of Reference which are available on the Society's website.

Aggregate information on Remuneration Code Staff during the years ending 31 October 2021 is shown in Table 27:

Remuneration Analysis	Number	Fixed Remuneration £'000	Variable Remuneration £'000	Total Remuneration £'000
Non-Executive Directors	7	154	-	154
Executive Directors	2	342	51	393
Leadership Team	9	470	4	474
Certified Staff	7	248	4	252
Total	**25**	**1,214**	**59**	**1,273**

Table 27: Remuneration Analysis as at 31 October 2021

Fixed Remuneration for Executive Directors, Leadership Team and Certified Staff includes basic salary and pension contributions paid by the Society. Variable Remuneration comprises any bonus payments made during the year. In terms of the Non-Executive Directors' fixed remuneration, they receive fees paid by the Society but do not receive pension contributions.

13. CONCLUSION

This disclosure document has been prepared in accordance with regulatory requirements as interpreted by the Society based on its size and complexity, and is updated on an annual basis following the publication of the Annual Report and Accounts.

In the event that a user of this document requires further explanation on the disclosures given, application should be made in writing to the Chief Executive at Stafford Railway Building Society, 4 Market Square, Stafford ST16 2JH.

14. GLOSSARY

Arrears	A customer is in arrears when they are behind in meeting their contractual obligations with the result that an outstanding loan payment is overdue. The value of the arrears is the value of any payments that have been missed.
Basel II	Basel II is the second of the Basel accords, issued by the Basel Committee on Banking Supervision, which defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive, and was implemented in the UK via the PRA/FCA Handbook.
Basel III	Basel III became effective in the UK on 1 January 2014 through CRD IV and sets out the details of strengthened global regulatory standards on bank capital adequacy and liquidity.
Capital Requirements Directive ('CRD IV')	CRD IV is the European legislation which came into force from 1 January 2014 to implement Basel III. It is made up of the CRR and the CRD, outlining the capital requirements framework and introduced liquidity requirements, which regulators use when supervising firms.
Common Equity Tier 1 capital ('CET1')	CET1 capital consists of internally generated capital generated from retained profits, other reserves less intangible assets and other regulatory deductions. CET1 capital is fully loss absorbing.
Common Equity Tier 1 Ratio	CET1 capital as a percentage of risk weighted assets.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Credit Quality Steps	A credit quality assessment scale as set out in CRR Articles 111 -141 (Risk weights under the Standardised Approach to credit risk).
Credit Risk	This is the risk that a customer or counterparty fails to meet their contractual obligations.
Derivative Financial Instruments	A derivative financial instrument is a contract between two parties whose value is based on an underlying price or index rate it is linked to, such as interest rates, exchange rates or stock market indices. The Society uses derivative financial instruments to hedge its exposure to interest rates.
External Credit Assessment Institution ('ECAI')	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
Fair Value	Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Financial Conduct Authority ('FCA')	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms.
Impairment	The term impairment is usually associated with a long-lived asset that has a fair market value less than the historical cost (or book value) of the asset.
Impaired Loans	Loans where there is objective evidence that an impairment event has occurred, meaning that the Society does not expect to collect all the contractual cash flows or expect to collect them later than they are contractually due. Impaired loans are defined as those which are more than three months in arrears or in possession. However, other indicators of impairment may result in provisioning for losses.

Interest Rate Risk	The risk of loss of income from movements in interest rates in severe but plausible market rate movements.
Internal Capital Adequacy Assessment Process ('ICAAP')	The Society's own assessment of the levels of capital that it needs to hold in respect of its regulatory capital requirements for risks it faces under a business as usual scenario including stress events.
Individual Liquidity Adequacy Assessment Process ('ILAAP')	The Society's own assessment of the liquidity resources it requires in order to remain within the risk tolerances it has set. This will include an evaluation of potential stresses based on multiple market environments.
Institutions	Treasury assets with financial institutions such as banks and building societies.
Leverage Ratio	The ratio of Tier 1 capital divided by the total exposures which includes on and off balance sheet items.
Loan to Value ('LTV')	LTV expresses the amount of a mortgage as a percentage of the value of the property.
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Basel III Pillar 1 requirements for credit, market and operational risk.
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Past Due Items	Loans which are 90 days or more in arrears.
Permanent Interest Bearing Shares ('PBIS')	Unsecured, deferred shares of the Society that are a form of Additional Tier 1 capital. PIBS rank behind the claims of all depositors, payables and investing members of the Society. PIBS are also known as subscribed capital.
Provisions	Amounts set aside to cover incurred losses associated with credit risks.
Prudential Regulation Authority ('PRA')	The statutory body responsible for the prudential supervision of banks, building societies, insurers and small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.
Risk Appetite	The articulation of the level of risk that the Society is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk Weighted Assets ('RWA')	The value of assets, after adjustment, under the relevant Basel III capital rules to reflect the degree of risk they represent.
Secured by Mortgages on Residential Property	Residential mortgages where LTV is less than or equal to 80%.
Secured by Mortgages on Commercial Real Estate	Secured business lending which is only made available to Small and Medium sized Enterprises.
Standardised Approach	The basic method used to calculate capital requirements for credit risk. In this approach the risk weighting used in the capital calculation are determined by specified percentages.

Tier 1 Capital	A component of regulatory capital, it comprises CET1 and AT1.
Tier 2 Capital	Comprises the collective impairment allowance (for exposures treated on a Standardised basis), less certain regulatory deductions.
Tier 1 Ratio	Tier 1 capital as a percentage of risk weighted assets.